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Straight Talking, Bill Nowlan - Land bonds could solve the problem of ghost estates

A 19th century-style approach to a 21st century problem? The government might never have an opportunity like this again

The first thing that was agreed at the recent Irish Planning Institute Conference was there is a need for a full survey and analysis of the actual problem of ghost estates. There was a lot of hearsay evidence but few hard facts. While examples of ghost estates could be nominated here and there, few planning authorities openly admitted to the extent and distress described in some sections of the media. In situations of non-compliance with planning conditions we heard how planning authorities are working with developers and receivers to remedy defects. One case study was cited where the developer was cooperating with the planning authority and had agreed to demolish some half-completed structures and landscape the whole estate. In return the developer's cash bond would be released following appropriate works.

But there is only so far that the planning authorities can go. They can't invent purchasers or occupiers for empty houses. One planning officer said that in his county, Leitrim, there was supply of residences to meet projected demand for nine years.

The conference agreed that there needed to be innovative solutions to turn empty houses into homes. One case study cited the town of Dunmore in north Galway, where a local housing association has, over several years, been acquiring and refurbishing surplus residences in the town and making them available to isolated older people living in the countryside. They are also advertising in the US and UK press for people from the area to come back to Dunmore for their retirement. This was good for the town and the returned emigrants.

But the key problem is money. Very many of the developers are insolvent and controlled by their banks. They are relying on the occasional sale of individual units to fund work to the estates, to maintain services and pay creditors. Generally the bank has the right to appoint receivers and take over control of the estates but will only do so if the developer is uncooperative. They seem to take the view that it is better to have a local man with local knowledge trying to make the best of the situation. Nama is unlikely to feature significantly because, as reported in this newspaper, it has found that most ghost estates are mainly a problem for developers and property syndicators who came late into the game.

However, there is an opportunity if the banks and government 'think big'. There is a huge need for homes right across the country, with the social housing list at over 50,000 at the last count two years ago and probably double that today. The first problem is the supply of money to acquire the units, the second is price and the third is administration/estate management structures.

In my paper to the conference I put forward a possible solution to these three problems.

The issue of price comes down to what figure the banks will accept for a once-off clearance of their impaired loans on so-called ghost estates. We saw a recent case in Mullingar where the bank, acting through a receiver, accepted in the order of €70,000 for a good two-bed apartment. I am convinced that there is unrepeatable value out there and that many vacant units could be bought for €70,000 to €100,000 from banks that have already written down such loans.

The second issue is administration. In acquiring and managing social housing it is vitally important sustainable communities are crafted. Some local authorities and some housing associations such as Respond, Cluid and Focus have excellent track records in community building and estate administration and would know what to buy and what not to buy. However, currently they are starved of resources to acquire residences. While government has revenue subsidies available through the Rental Assistance Scheme (RAS) this depends on private landlords providing the capital and the rental levels available under RAS will not justify purchase prices above about €100,000.

My suggestion to the conference to overcome this impasse was for the government to deal with the opportunity/ problem in the same way as the Irish land problem was resolved in the 19th century, which was by issuing land bonds. Then absentee land owners, through the Land Commission, got negotiable land bonds which were encashable on the stock exchange and the new landowner paid an annuity. A modern scheme would work something like this. A housing association would acquire entire blocks or estates from the banks/developers and issue them the equivalent to land bonds guaranteed by the state and bearing an interest rate of say 5%. The banks could sell these on the stock market at par. The housing association (or the local authority) would let the house to an occupier at an open market rent which would reflect 5% on purchase price of say €75,000, meaning a rent of €3,750 per annum plus admin costs of say €2,000 per annum making total rent of €5,750 per annum or just €120 per week. For those who need assistance in paying this rent (and not all would) then the RAS system would kick in and the Housing Association would get the €120 per week from the government. The bonds could be issued by the NTMA.

Of course the immediate reaction from Merrion Street would be that these bonds would rank as government borrowing and would make our state indebted position worse. However, we managed to keep the Nama borrowing off the state balance sheet by use of an SPV and it should be possible for these bonds also. To repay the bond I would make the houses acquired by Housing Associations available to the tenants to buy at the original bargain purchase prices for a period after the economy recovers.

The government will never get an opportunity like this again to make a big hole in the social housing problem.

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